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August 20, 2003

Chairman Deborah Taylor Tate
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Via Electronic Mail and Hand Delivery

Aster Adams
Chief, Economic Analysis and Market Monitoring Division
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

**Re: *Joint Petition of Tennessee-American Water Company and Marion County,
Tennessee for Approval of Purchase Agreement, Docket No. 03-00388***

Dear Chairman Tate and Mr. Adams:

We are filing with the docket office today an original and thirteen copies of the response by Petitioner Tennessee-American Water Company to the Authority Staff's Second Data Requests sent by Mr. Aster Adams on August 11, 2003. A courtesy copy of this filing has also been sent today to the listed recipients via electronic mail.

As its response to the data request, Petitioner Tennessee-American Water Company answers as follows:

- Q1.** On June 16, 2003, Tennessee American Water Company (TAWC) and Marion County filed a joint petition seeking approval of the acquisition by TAWC of the water utility distribution system owned by Marion County (See Docket No. 03-00388). Has TAWC entered or does the Company plan to enter into any other "Operating & Maintenance Agreement" ("O&M Agreement") like the one involving the Suck Creek system in Marion County?
- A1.** On May 13, 2002, TAWC entered into an O&M Agreement with the Lone Oak Utility District ("LOUD") on Signal Mountain in Sequatchie County. TAWC's operational responsibilities under the O&M Agreement will not begin until construction of the new system is complete sometime later this year. TAWC did not petition the TRA for approval of the LOUD O&M Agreement because TAWC is not aware of any statute or regulation requiring such approval. The Company

has and will continue to look for ways to grow its customer base, including use of O&M agreements when appropriate. We believe growth provides immediate revenue benefits, a larger base on which to spread fixed costs and serves to mitigate future rate increase impacts. Agreements such as these in many cases provide the best solution to extending service or improving service to existing small troubled water systems.

- Q2.** Were any of the current investments and expenses in the connector between the Suck Creek system and the Lone Oak Utility District as well as their corresponding revenues included in the Company's rate case (Docket No. 03-00118)? If so, explain where those amounts can be found. If not, why not?
- A2.** No. As the revenues and expenses and accordingly the rates are going to initially be kept separate from the remainder of the TAWC system, investments and expenses related to the Suck Creek System were specifically excluded from the Company's rate case.
- Q3.** For all systems covered by such O&M Agreements, provide detailed trial balances for 2001 and 2002, by month, by account, including adjusting entries and post-closing balances.
- A3.** We did not begin operating the Suck Creek System until 2003. Work on the interconnection was not begun until 2003. None are available for Lone Oak U.D. since TAWC's operational responsibilities under the O&M Agreement will not begin until construction of the new system is complete sometime later this year.
- Q4.** For all systems under such O&M Agreements, provide detailed accounts as recorded in your books of any transfer of cash, assets, equity and liabilities from regulated TAWC business to the systems, and explain what interest was charged by TAWC to the systems under O&M Agreements.
- A4.** No such transfers have been made. As the capital invested or to be invested in the Suck Creek or LOUD systems is not included in the Company's rate case (Docket No. 03-00118) these systems will bear their own capital costs. The Company will segregate the debt and equity then prorate those based on the investment in Suck Creek, in order to determine the cost of service for Suck Creek U.D., until such time as TAWC petitions for and the TRA approves combining the rates of both the Suck Creek system and the existing TAWC system into one tariff.
- Q5.** What is the average water consumption per month per customer and customer classes?

- A5. All customers are in the residential class. Since we assumed management of the Suck Creek System, we have had four full months of billing. Average water consumption in gallons per customer for May, June, July and August of 2003 is 5,057, 4,627, 4,838 and 5,310 respectively.
- Q6. Is the application fee considered like a deposit? If so, does it meet the standard of customer deposits set by the Authority Rule 1220-4-3-.15?
- A6. These fees have been recorded as miscellaneous income by Suck Creek Utility District, not as a customer deposit subject to refund. TAWC proposes to continue that practice at least until such time a rate application is filed with the TRA for the Suck Creek operation.
- Q7. Your response to my July 16, 2003 data request question 2 indicates that the revenues and expenses of the system will initially be kept separate from the remainder of TAWC's system so as to not adversely impact the rates of current TAWC ratepayers. How long will the current rate structure be maintained by TAWC before any rate increase for the Suck Creek System customers?
- A7. The Suck Creek System currently serves its customers from three wells, which have in past years experienced inadequate capacity during drought conditions. Because of this, the Tennessee Department of Environment and Conservation ("TDEC") has placed a moratorium on additional connections to the system until a more reliable water source is secured. Once the interconnection with the LOUD System is complete, which will occur later this year, we will be able to add new customers to the Suck Creek System. Also, after any backlog of new taps is remedied, we will be able to make a more accurate evaluation of the System rate base, revenues and expenses. We should be in a position early next year to make this evaluation and also to make a determination if new rates are needed.
- Q8. You also indicated that TAWC will likely petition the TRA to combine the Suck Creek System with the TAWC system. Could you explain? Will TAWC be operating the Suck Creek System as an affiliate, a franchise or an independent system with its own certificate of convenience and necessity?
- A8. Our previous reference to combining the Suck Creek system with the TAWC system was referring to combining the rates for both systems into one tariff. Until TAWC petitions for and the TRA approves such a combined tariff, the Suck Creek System will be operated by TAWC, but as a separate business unit in the TAWC accounting system.
- Q9. The net book value of the assets of Suck Creek Utility District totals \$960,443 but the system was purchased for only \$153,269. Could you explain how much and

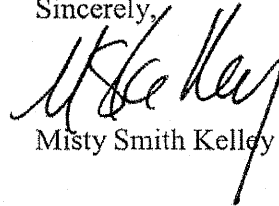
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what types of upgrades are needed to address any deficiencies the water system currently has?

- A9. As mentioned above, the most severe deficiency of the Suck Creek System is lack of a reliable source of supply. The immediate upgrades consist of the interconnection to LOUD for an estimated construction cost of \$818,250 with \$500,000 of the construction costs being paid by a Community Development Block Grant. An estimated \$15,750 will be invested in Systems Control and Data Acquisition ("SCADA") equipment.

Please do not hesitate to contact me if you have any questions about this filing.

Sincerely,



Misty Smith Kelley

MSK:klc

cc: Russell Perkins (via electronic mail)
J. Harvey Cameron (via electronic mail)
William L'Ecuyer (via electronic mail)
Coleman Bush (via electronic mail)